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Family Name					
Given Name/s					
Student Number					
Teaching Period	Semester 1, 2018				

ACT302 – Strategic Management Accounting	DURATION	
	Reading Time:	10 minutes
	Writing Time:	180 minutes
INSTRUCTIONS TO CANDIDATES		
<p>1.1 The examination has five (5) Short Essay Questions: Answer ALL (5) questions.</p> <p>1.2 Note that each question is of equal value however parts of each question ARE NOT of equal value. Marks as indicated by lecturer.</p> <p>1.3 Read ALL questions carefully.</p>		
EXAM CONDITIONS		
<p><u>You may begin writing from the commencement of the examination session.</u> The reading time indicated above is provided as a guide only.</p>		
This is a RESTRICTED OPEN BOOK examination		
Any non-programmable calculator is permitted		
Any handwritten material is permitted		
Hard copy, unannotated English translation dictionary only		
ADDITIONAL AUTHORISED MATERIALS	EXAMINATION MATERIALS TO BE SUPPLIED	
No additional printed material is permitted	1 x 8 Page Book 1 x Scrap Paper	

THIS EXAMINATION IS PRINTED
DOUBLE-SIDED.

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The questions should be answered in the Answer Booklet provided.

Marks for each question are indicated.

QUESTION 1

(10 Marks - Suggested time approx. 35 minutes)

- a) Identify and explain the insights that customer-profitability analysis can provide to managers.
(1.5 marks - Suggested time approx. 5 minutes)
- b) 'A customer profitability profile highlights those customers that management should drop to improve profitability.' Do you agree with this statement? Explain your answer.
(1.5 marks - Suggested time approx. 5 minutes)
- c) Explain the terms 'predatory pricing', 'dumping' and 'price fixing'.
(1.5 marks - Suggested time approx. 5 minutes)
- d) The management of NT Airways is thinking about introducing a daily return-flight from Darwin to Singapore. You are the management accountant at NT Airways and are working with the marketing manager to recommend the price for a return ticket.

In researching the market, you and the marketing manager:

- (1) establish potential demand for the planned flight. The airline market for the Darwin to Singapore route is highly competitive;
- (2) distinguish between business and pleasure travellers (pleasure travellers start their travel during one week, spend at least one weekend at their destination and return the following week or thereafter; business travellers usually start and complete their travel within the same work week, i.e. they do not stay over weekends), pleasure (economy) travellers get minimal seat sizes, no meals and limited baggage allowance whilst business travellers get a wider seat with a greater pitch, larger TV screens, better food (this could be a larger selection, complimentary drinks, etc.), and a greater baggage allowance and a dedicated amenity kit;
- (3) estimate the effects of two different prices on the number of seats expected to be sold and the variable cost per ticket, including the commission paid to travel agents (see table below);
- (4) estimate from the records of similar flights that the fuel costs are likely to amount to \$18,500; and (5) allocate a total of \$150,000 to the return flight in respect of aircraft-lease costs, ground services and flight-crew salaries.

You present the following information to the management team for discussion at the next management meeting.

Price charged		Variable cost per ticket		Seats Available		Number of seats expected to be sold	
Business	Pleasure	Business	Pleasure	Business	Pleasure	Business	Pleasure
\$1,350	\$600	\$150	\$65	50	300	50	300
	\$779		\$80		375		295
\$1,298		\$165		250		177	

Continued.....

Required:

- (i) Provide a recommendation to NT Airways on which pricing strategy the airline should implement (i.e. whether to charge a single price for pleasure travellers, a single price for business travellers or different prices to business travellers and pleasure travellers). Support your recommendation with clear explanations and relevant calculations.
(4 marks - Suggested time approx. 15 minutes)

- (ii) As part of your recommendation discuss whether NT Airways would be able to implement price discrimination, should they decide to charge business travellers and pleasure travellers each different prices for the same flight. Support your recommendation with clear explanations of why or why not.
(1.5 marks - Suggested time approx. 5 minutes)

QUESTION 2**(10 Marks - Suggested time approx. 35 minutes)**

Siggy's Constructions is analysing its capital expenditure proposals for the purchase of equipment in the coming year. The capital budget is limited to \$6,000,000 for the year. The management accountant at Siggy's, is preparing an analysis of the three projects under consideration by the company's manager. The company's manager notes that there is a high level of uncertainty about the future cash flows.

	Project A	Project B	Project C
Projected cash outflow			
Net initial investment	\$6,000,000	\$2,700,000	\$3,300,000
Projected cash inflows			
Year 1	\$1,800,000	\$400,000	\$1,025,000
Year 2	\$2,200,000	\$600,000	\$850,000
Year 3	\$2,200,000	\$700,000	\$725,000
Year 4	\$400,000	\$800,000	\$725,000
Year 5	\$400,000	\$900,000	\$725,000
Year 6	—	\$900,000	\$725,000
Projected Net profit			
Year 1	\$600,000	(\$140,000)	\$365,000
Year 2	\$1,000,000	\$60,000	\$190,000
Year 3	\$1,000,000	\$160,000	\$65,000
Year 4	(\$800,000)	\$260,000	\$65,000
Year 5	(\$800,000)	\$360,000	\$65,000
Year 6		\$360,000	\$65,000
Required rate of return (RRR)	8.0%	8.0%	8.0%
Internal rate of return (IRR)	6.9%	13.2%	12.6%
Payback (Years)	2.91	4.22	3.97
NPV	(\$134,512)	\$508,158	\$436,533
Average ARR	3%	7%	4%
ARR Year 1	11%	-6%	12%
Manager's Annual Bonus =	Manager's Annual Salary times (ARR less RRR) ; when the Annual ARR is greater than the RRR.		

Continued.....

Required:

(Note there are no further calculations required for this question)

- a) Describe the five stages of the capital budgeting process for this expansion project.

(3 marks - Suggested time approx. 10 minutes)

b) Discuss which projects, if any, would you recommend funding? Briefly explain why. Your discussion should include comments on the analysis provided, (NPV, IRR, Payback Period, AARR) and what factors may be relevant to the manager when considering which investment(s) is appropriate. For example, what is the impact of uncertain cash flows on the decision to invest, or perhaps, will the Manager invest in a project if her bonus depends on achieving an accrual accounting rate of return? How can this conflict be resolved?

(7 marks - Suggested time approx. 25 minutes)

QUESTION 3

(10 Marks - Suggested time approx. 35 minutes)

“From the standpoint of management control, three topics are unique to multi-national enterprises (MNE’s): cultural differences, transfer pricing, and exchange rates. In addition to goal congruence, other important considerations would include taxation, government regulations, tariffs, foreign exchange controls, funds accumulation and joint ventures.”

In terms of the evaluation of the performance of subsidiaries, (located in countries and jurisdictions different from that of the parent entity), and the managers of these subsidiaries, discuss in detail the implications and/or impact of the issues identified in the statement above. Your answer should include (but not limited to) the negative and positive consequences of various economic exposures, the impact of cultural differences, the impact on and impact of transfer pricing arrangements.

QUESTION 4**(10 Marks - Suggested time approx. 35 minutes)**

BuggyBooBoo Ltd has two divisions, A and B, which manufacture quality baby buggies. Division A produces the buggy frame and Division B assembles the rest of the buggy onto the frame. There is a market for both the subassembly and the final product. Each division has been designated as a profit centre. The transfer price for the subassembly has been set at the long-run average market price.

The following data are available for each division:

Selling price for final product	\$ 300
Long-run average selling price for intermediate product	\$ 120
Incremental cost per unit for completion in Division B	\$ 150
Incremental cost per unit in Division A	\$ 120

The manager of Division B has made the following calculation:

Selling price for final product		\$ 300
Transferred-in cost per unit (market)	\$ 200	
Incremental cost per unit for completion	\$ 150	\$ 350
Contribution (loss) on product		\$ (50)

Required

- a) Should transfers be made to Division B if there is no unused capacity in Division A? Is the market price the correct transfer price? Show your calculations.

(2-½ marks - Suggested time approx. 8 minutes)

- b) Assume that Division A's maximum capacity for this product is 1,000 units per month and sales to the intermediate market are now 800 units. Should 200 units be transferred to Division B? At what transfer price? Assume that, for a variety of reasons, Division A will maintain the \$200 selling price indefinitely; that is, Division A is not considering lowering the price to outsiders even if idle capacity exists. Show your calculations.

(2-½ marks - Suggested time approx. 9 minutes)

- c) Suppose Division A quoted a transfer price of \$150 for up to 200 units. What would be the contribution to the company as a whole if a transfer were made? As manager of Division B, would you be inclined to buy at \$150? Explain. Show your calculations.

(2-½ marks - Suggested time approx. 9 minutes)

- d) When considering which transfer price may appear to be optimal (in terms of an economic analysis) for parts b) and c) above, what are the implications in terms of goal congruence, performance evaluation and the overall purpose of decentralising an organisation, if managers were directed to implement a particular transfer price. Discuss fully and where appropriate show your calculations to illustrate your answer.

(2-½ marks - Suggested time approx. 9 minutes)

QUESTION 5**(10 Marks - Suggested time approx. 35 minutes)**

- a) What are the essential characteristics of contemporary (modern) performance measurement systems?
(3 marks - Suggested time approx. 10 minutes)
- b) What are the four key perspectives in the balanced scorecard and how are they presented in a strategy map? And how can a strategy map be used in developing and testing an organisation's strategy? You should provide an example to illustrate your answer.
(7 marks - Suggested time approx. 25 minutes)